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UNITED NATIONS OFFICE FOR PROJECT SERVICES

Financial regulations governing the operations of UNOPS

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Administrator of the United Nations Development Programme (UNDP) and of the Executive Director of the United Nations Office for Project Services (UNOPS) contained in documents DP/1995/7 and DP/1995/7/Add.1 on the financial regulations governing the operations of UNOPS. During its consideration of this item, the Committee met with representatives of UNDP and UNOPS, who provided additional information. The Officer-in-Charge of UNDP introduced the subject before the Committee.

2. The reports were prepared pursuant to Executive Board decision 94/32 and, as indicated in paragraph 3 of document DP/1995/7, the proposed financial regulations will be an annex to the UNDP Financial Regulations; under the proposed Regulation 1.4, for any matter not specifically covered by the UNOPS Regulations, the appropriate provisions of the UNDP Regulations will apply, mutatis mutandis. The comments in the paragraphs below are the Committee's initial reaction to the proposed UNOPS Financial Regulations. The Committee intends to revert to this matter as necessary in the light of actual experience gained in the application of these regulations.

Definitions

3. In the view of the Advisory Committee, some of the definitions introduced under proposed Regulation 2.2 still require some refinement. For instance, definitions of certain terms (e.g., "operational costs", "resources entrusted to the charge of UNOPS" and "support costs") should be rephrased to use the standard nomenclature currently used elsewhere in the United Nations system;

those with an accepted meaning as used in the UNDP Financial Regulations (e.g., "project document") should not be redefined by introducing other concepts as proposed, for instance, in the last sentence of the definition of "project document".

Biennial budget

4. With reference to the proposed regulations for the biennial budget, the Advisory Committee notes that the proposed Regulation 6.1 introduces planning periods, which have not been explained or defined elsewhere in the regulations. The Committee recommends reformulation of this regulation, noting that in UNDP Regulation 9.1 (UNDP biennial budget), the planning periods mentioned in that regulation are clearly defined in Article VI and Article VII of the UNDP Financial Regulations. For purposes of clarity, the reference to "the Advisory Committee" in regulation 6.4 should read "Advisory Committee on Administrative and Budgetary Questions (ACABQ)".

Administration of resources

5. The Advisory Committee notes that under proposed regulation 8.3, an operational reserve will be established at a level set by the Executive Board. In paragraph 5 of document DP/1995/7, the Administrator and the Executive Director propose that the initial level be "set at 20 per cent of the annual UNOPS administrative budget, rounded to the nearest hundred thousand dollars." For 1995, the operational reserve would be set at $6.8 million. Upon enquiry, the Committee was informed that the 20 per cent level was being recommended on the basis of the same principle approved by the former Governing Council for the UNDP operational reserve. However, it is not clear whether the elements to be compensated for and covered by the proposed operational reserve for UNOPS warrant a reserve at this level. The two initial elements mentioned under proposed regulation 8.3 (a), namely, (i) "shortfalls in income" and (ii) "uneven cash flows", which were copied from UNDP Regulation 12.2, appear to be not necessarily applicable to UNOPS. These were not satisfactorily explained to the Committee. With respect to the third element under proposed Regulation 8.3 (i.e., "professional or contractual liabilities associated with UNOPS services"), the document does not provide explanations on this point. The Committee recalls that in paragraph 8 of its report contained in document DP/1994/57, the Committee noted that in the documentation submitted to the Executive Board no information was provided regarding the risks and liabilities to which UNOPS may be susceptible that would warrant the establishment of such reserve.

6. The Advisory Committee observes that the concept of "working capital" used in proposed regulation 8.5 is undefined in the regulations. As indicated in paragraph 5 (a) (iii) of document DP/1995/7, the balance of unspent income will be considered "working capital" and the initial amount of working capital, as stated in this paragraph, is $2.2 million. Under the proposed Regulation 8.5, the Administrator and the Executive Director propose to utilize this amount in accordance with the provisions of Article VI and VII of the proposed regulations. The Committee does not recommend the establishment of a working capital fund in addition to the operational reserve. The Committee reiterates its previous recommendation, contained in paragraph 9 of document DP/1994/57,

that UNOPS submit to the Executive Board proposals on policy guidelines for the application of surplus income.

Management of funds

7. The Advisory Committee is of the view that the proposed Regulation 9.1 should be reworded taking into account UNDP Regulation 13.1.

8. With regard to the accounting treatment of losses of cash, stores and other assets, the Advisory Committee notes that the last sentence of regulation 10.4 proposes that "such amounts shall, for administrative efficiency, be charged directly to the relevant allotment/budget line". In this regard, the Committee is of the view that the accounting treatment proposed in this regulation be applied in such a manner as to ensure that the actual expenditure against the authorized allotment/budget line is discernible.